

HUNGARIAN TELEPHONE & CABLE CORP
Form DEF 14A
April 05, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

HUNGARIAN TELEPHONE AND CABLE CORP.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.

(3) Filing Party:

(4) Date Filed:

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HUNGARIAN TELEPHONE

1201 Third Avenue, Suite 3400

AND CABLE CORP.

Seattle, WA 98101-3034

Dear Stockholder:

April 8, 2004

On behalf of the Board of Directors, we cordially invite you to attend the Annual Meeting of Stockholders of Hungarian Telephone and Cable Corp. (the Company) to be held at 10:00 a.m. local time, on May 19, 2004 at the Renaissance New York Hotel, Times Square, 714 Seventh Avenue at W. 48th Street, New York, New York 10036.

In addition to the election of directors and the ratification of the appointment of auditors, the holders of common stock of the Company will consider and vote upon a proposal at the Annual Meeting to approve an Equity Compensation Plan.

Your Board of Directors has unanimously concluded that each of the proposals is in the best interests of the Company and its stockholders. Accordingly, the Board of Directors recommends a vote FOR the election of the nominees named herein as directors, the ratification of the appointment of auditors and the approval of the Equity Compensation Plan.

The attached Proxy Statement more fully describes the matters to be voted upon at the Annual Meeting and also includes information concerning the Company. We urge you to read carefully the information contained in the Proxy Statement.

We hope that you will be able to attend the Annual Meeting. If you cannot attend, your shares of Common Stock can be represented by completing, signing and dating the enclosed proxy, and returning it in the envelope provided (which requires no postage if mailed in the United States). You may, of course, withdraw your proxy if you attend the Annual Meeting and choose to vote in person.

Sincerely,

Daryl A. Ferguson

Chairman of the Board

Torben V. Holm

Chairman of the Board

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HUNGARIAN TELEPHONE AND CABLE CORP.

1201 Third Avenue, Suite 3400

Seattle, Washington 98101-3034

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 19, 2004

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Meeting) of Hungarian Telephone and Cable Corp., a Delaware corporation (the Company), will be held at the Renaissance New York Hotel, Times Square, 714 Seventh Avenue at W. 48th Street, New York, New York 10036 on May 19, 2004, at 10:00 a.m., local time, for the following purposes:

1. To elect seven directors of the Company to serve until the 2005 Annual Meeting of Stockholders or until their successors have been duly elected and qualified;
2. To vote upon a proposal to approve the adoption by the Company of the Hungarian Telephone and Cable Corp. 2004 Long-Term Incentive Plan; and
3. To ratify the appointment of KPMG Hungaria Kft. as auditors of the Company for the fiscal year ending December 31, 2004; and

to transact such other business as may properly come before the Meeting and any adjournment or postponement thereof. The Board of Directors is not aware of any other business to come before the Meeting.

The Board of Directors has fixed April 5, 2004 as the record date for determining the stockholders entitled to notice of, and to vote at, the Meeting and any adjournment or postponement thereof. For ten days prior to the Meeting, a complete list of stockholders of record entitled to vote at the Meeting will be maintained for inspection by an eligible stockholder (for any purpose germane to the Meeting) during normal business hours at the U.S. office of the Company which is located at 1201 Third Avenue, Suite 3400, Seattle, WA 98101-3034, phone 206-654-0204.

Whether or not you plan to attend the Meeting in person, please mark, execute, date and return the enclosed proxy promptly in the envelope provided. Should you attend the Meeting in person you may, if you wish, withdraw your proxy and vote your shares in person.

By Order of the Board of Directors,

/s/ Peter T. Noone

Peter T. Noone

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Secretary

Seattle, Washington

April 8, 2004

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES TO ENSURE A QUORUM AT THE MEETING. A PRE-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

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HUNGARIAN TELEPHONE AND CABLE CORP.

PROXY STATEMENT

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HUNGARIAN TELEPHONE AND CABLE CORP.

1201 Third Avenue, Suite 3400

Seattle, Washington 98101-3034

April 8, 2004

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 19, 2004

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Hungarian Telephone and Cable Corp. (the Company) to be used at the Annual Meeting of Stockholders of the Company, to be held at 10:00 a.m. local time, on May 19, 2004 at the Renaissance New York Hotel, Times Square, 714 Seventh Avenue at W. 48th Street, New York, New York 10036, or at any adjournment or postponement thereof (the Meeting). This Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders and form of proxy are first being sent or given to stockholders on or about April 9, 2004.

At the Meeting, the stockholders of the Company are being asked to consider and vote upon: (i) the election of seven directors of the Company to serve until the 2005 Annual Meeting of Stockholders or until their successors are duly elected and qualified; (ii) a proposal to approve the adoption by the Company of the Hungarian Telephone and Cable Corp. 2004 Long-Term Incentive Plan; and (iii) the ratification of the appointment of KPMG Hungaria Kft. as auditors of the Company for the fiscal year ending December 31, 2004.

Voting Rights and Proxy Information

All shares of common stock, par value \$.001 per share, of the Company (the Common Stock), represented at the Meeting by properly executed proxies received prior to or at the Meeting, and not revoked, will be voted at the Meeting in accordance with the instructions thereon. If no instructions are indicated, properly executed proxies will be voted for election of all nominees for director named below, for the approval of the proposal regarding the adoption by the Company of the Hungarian Telephone and Cable Corp. 2004 Long-Term Incentive Plan, and for the ratification of the appointment of auditors. The Company does not know of any matters, other than as described in the Notice of Annual Meeting, that are to come before the Meeting. If any other matters are properly presented at the Meeting for action, the persons named in the enclosed form of proxy and acting thereunder will have the discretion to vote on such matters in accordance with their best judgment. Proxies should not be sent by the stockholder to the Company, but to Continental Stock Transfer & Trust Company, the Company's Registrar and Transfer Agent, at 17 Battery Place South, 8th Floor, New York, New York 10004. A pre-addressed, postage-paid envelope is provided for this purpose.

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A proxy delivered pursuant to this solicitation may be revoked at any time before it is voted. Proxies may be revoked by (i) filing with the Secretary of the Company at or before the Meeting a written notice of revocation bearing a later date than the proxy, (ii) duly executing a subsequent proxy relating to the same shares and delivering it to the Secretary of the Company at or before the Meeting, or (iii) attending the Meeting and voting in person (although attendance at the Meeting will not in and of itself constitute revocation of a proxy). Any written notice revoking a proxy should be delivered to Peter T. Noone, Secretary, Hungarian Telephone and Cable Corp., 1201 Third Avenue, Suite 3400, Seattle, Washington 98101-3034.

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Vote Required for Approval

The presence, in person or by proxy, of a majority of the shares of Common Stock entitled to vote is required to constitute a quorum for the transaction of business at the Meeting. The election of directors requires the affirmative vote of a plurality of the shares of Common Stock voting in person or by proxy at the Meeting. Thus, abstentions and proxies returned by brokers as non-votes on behalf of shares held in street name will have no effect on the outcome of the election of directors. The affirmative vote of a majority of the shares present in person or by proxy and voted on such matter at the Meeting is required for approval of the proposal to adopt the Hungarian Telephone and Cable Corp. 2004 Long-Term Incentive Plan. Accordingly, abstentions will have the same effect as a vote against such matter and proxies returned by brokers as non-votes will not effect the outcome of such vote. For the vote with respect to the ratification of the appointment of auditors, abstentions will have the same effect as a vote against such matter and proxies returned by brokers as non-votes will not affect the outcome of such vote. Proxies submitted which contain abstentions or broker non-votes will be deemed present at the Meeting in determining the presence of a quorum.

Your Board of Directors has unanimously approved each of the proposals set forth herein. Accordingly, the Board of Directors recommends a vote for the election of the nominees named herein as directors, for the proposal to approve the Hungarian Telephone and Cable Corp. 2004 Long-Term Incentive Plan and for the ratification of the appointment of KPMG Hungaria as auditors for the fiscal year ended December 31, 2004.

Voting Securities

April 5, 2004 has been set as the record date (the Record Date) for determining stockholders entitled to notice of, and to vote at, the Meeting. As of the close of business on the Record Date, there were outstanding 12,320,170 shares of Common Stock. Each holder thereof is entitled to one vote per share.

Stock Ownership of Certain Beneficial Owners

The following table sets forth, as of April 5, 2004, certain information as to those persons who were known by management to be beneficial owners of more than 5% of the Common Stock.

<u>Name and Address of Beneficial Owner</u>	<u>Shares Beneficially Owned ⁽¹⁾</u>	<u>Percent of Class ⁽¹⁾</u>
CU CapitalCorp. c/o Citizens Communications Company 3 High Ridge Park Stamford, Connecticut 06905	2,605,908 ⁽²⁾	20.6%
Ashmore Investment Management	4,328,572 ⁽³⁾	29.2%

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20 Bedfordbury

London WC2N 4BL

United Kingdom

TDC A/S

Noerregade 21

0900 Copenhagen C, Denmark

3,865,302

31.4%

⁽¹⁾ Shares Beneficially Owned includes shares held directly as well as shares which such entity may have the right to acquire within 60 days of April 5, 2004. Percent of Class is calculated by dividing the Shares

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Beneficially Owned by such entity by the shares of Common Stock outstanding as of April 5, 2004 plus only those shares which such entity may have the right to acquire within 60 days of April 5, 2004.

- (2) Includes 300,000 shares of Common Stock which are issuable upon the conversion by CU CapitalCorp. of its 30,000 shares of the Company's Series A Preferred Stock.
- (3) Includes 2,500,000 shares of Common Stock which are issuable upon the exercise of a warrant held by Ashmore Investment Management with an exercise price of \$10.00 per share.

Potential Changes in Control

Pursuant to certain agreements from 1994 through 1999, the Company has issued 2,579,588 shares of Common Stock to TDC A/S, formerly known as Tele Danmark A/S (together with its affiliates, TDC). The agreements with TDC provide TDC with certain preemptive rights to purchase, upon the issuance of Common Stock in certain circumstances to third parties, shares of Common Stock in order to maintain its percentage ownership interest in the outstanding Common Stock of the Company. In July 2002 TDC acquired an additional 1,285,714 shares of Common Stock from the Danish Investment Fund for Central and Eastern Europe. TDC now owns 31.4% of the Company's outstanding Common Stock.

In 1999 as part of a revision of its capital structure, the Company issued 2,428,572 shares of Common Stock, warrants to purchase 2,500,000 shares of Common Stock and notes maturing in 2007 in the aggregate amount of \$25 million to Postabank Rt., a Hungarian commercial bank (Postabank). In October 2003, certain funds managed by Ashmore Investment Management (Ashmore) purchased from Postabank 1,828,572 of Postabank's shares, all of Postabank's notes and all of Postabank's warrants to purchase 2,500,000 shares of Common Stock. The warrants entitle Ashmore to purchase 2,500,000 shares of Common Stock for \$10 per share. The exercise period for such warrants began on January 1, 2004 and expires on March 31, 2007. If Ashmore were to exercise its warrants in full, it would own up to 29.2% of the Company's outstanding Common Stock.

As a result of certain agreements with subsidiaries of Citizens Communications Company (together with its affiliates, Citizens), the Company has issued 1,902,908 shares of Common Stock to Citizens and 30,000 shares of the Company's preferred stock convertible into 300,000 shares of Common Stock. Citizens has also purchased 300,000 shares of Common Stock from a former officer of the Company and 103,000 shares of Common Stock on the open market. Presently Citizens owns 18.7% of the Company's outstanding Common Stock. The agreements with Citizens provide Citizens with certain preemptive rights to purchase, upon the issuance of Common Stock in certain circumstances to third parties, shares of Common Stock in order to maintain its percentage ownership interest in the outstanding Common Stock of the Company on a fully diluted basis.

Stock Ownership of Management

The following table sets forth, as of April 5, 2004, certain information as to the shares of Common Stock beneficially owned by an executive officer and certain officers of the Company, and as to the shares of Common Stock beneficially owned by all directors and executive officers of the Company as a group.

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Name of Beneficial Owner	Shares	
	Beneficially Owned ⁽¹⁾	Percent of Class ⁽¹⁾
<i>Current Officers and Employees</i>		
Ole Bertram	415,500 ⁽²⁾	3.3
William T. McGann	56,200 ⁽³⁾	*
Peter T. Noone	70,100 ⁽⁴⁾	*
Directors and Executive Officers as a Group (7 persons)	573,197 ⁽⁵⁾	4.5

* Less than one percent

⁽¹⁾ Shares Beneficially Owned includes shares held directly, as well as shares which such persons have the right to acquire within 60 days of April 5, 2004 and shares held by certain members of such persons' families, over which such persons may be deemed to have sole or shared voting power or investment power. Percent of Class is calculated by dividing the Shares Beneficially Owned by the individual (or group) by the shares of Common Stock outstanding as of April 5, 2004 plus only those shares which the individual (or group) has the right to acquire within 60 days of April 5, 2004.

⁽²⁾ Includes 100,000 shares subject to options presently exercisable at \$5.93 per share, 100,000 shares subject to options presently exercisable at \$4.86 per share, 100,000 shares subject to options presently exercisable at \$4.72 per share, and 100,000 shares subject to options presently exercisable at \$7.46 per share granted pursuant to Mr. Bertram's employment agreement. See Election of Directors - Employment Agreements.

⁽³⁾ Includes 5,000 shares subject to options presently exercisable at \$5.93 per share, 10,000 shares subject to options presently exercisable at \$4.86 per share, 20,000 shares subject to options presently exercisable at \$4.72 per share, and 20,000 shares subject to options presently exercisable at \$7.46 per share. See Election of Directors - Employment Agreements.

⁽⁴⁾ Includes 15,000 shares subject to options presently exercisable at \$5.93 per share, 15,000 shares subject to options presently exercisable at \$4.86 per share, 20,000 shares subject to options presently exercisable at \$4.72 per share, and 20,000 shares subject to options presently exercisable at \$7.46 per share granted pursuant to Mr. Noone's employment agreement. See Election of Directors - Employment Agreements.

⁽⁵⁾ Does not include shares reported to be beneficially owned by CU CapitalCorp. Leonard Tow, a director of the Company, serves as a director and executive officer of both the parent company and an affiliate of CU CapitalCorp. Daryl A. Ferguson, a director of the Company, serves as a consultant to the parent company of CU CapitalCorp. Does not include shares reported to be beneficially owned by TDC A/S. Thomas Gelting and Torben V. Holm, directors of the Company, serve as officers of TDC A/S. See - Stock Ownership of Certain Beneficial Owners.

I. ELECTION OF DIRECTORS**General**

Pursuant to the Company's By-laws, directors are elected to serve for a one-year term or until their respective successors have been elected and qualified. All of the seven nominees are incumbent directors who were elected at the last annual meeting of stockholders. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to one or more nominees) will be voted at the Meeting for the election of the nominees identified below. If any nominee is unable to serve, the shares represented by all valid proxies

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will be voted for the election of such substitute as the Board of Directors may recommend. At this time, the Board of Directors knows of no reason why any of the nominees might be unable to serve, if elected. Except as described below, there are no arrangements or understandings between any director or nominee and any other person pursuant to which such director or nominee was selected.

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The table below sets forth certain information, as of April 5, 2004, regarding the Company's current Board of Directors and nominees for election to the Board of Directors, including beneficial ownership of Common Stock.

<u>Name</u>	<u>Age</u>	<u>Position(s) Held in the Company</u>	<u>Director Since</u>	<u>Shares Beneficially Owned</u> ⁽¹⁾	<u>Percent of Class</u> ⁽¹⁾
<i>Current Directors who are Nominees for Election</i>					
Ole Bertram	68	Director, President and Chief Executive Officer	1997	415,500 ⁽²⁾	3.3
Daryl A. Ferguson	65	Director	1998	25,413 ⁽³⁾	*
Thomas Gelting	45	Director	2002	11,284 ⁽⁴⁾	*
Torben V. Holm	53	Director	1999	20,000 ⁽⁴⁾	*
John B. Ryan	73	Director	1992	41,000 ⁽⁵⁾	*
William E. Starkey	68	Director	1996	40,000 ⁽⁶⁾	*
Leonard Tow	75	Director	1997	20,000 ⁽⁷⁾	*

* Less than one percent

(1) Shares Beneficially Owned includes shares held directly, as well as shares which such persons have the right to acquire within 60 days of April 5, 2004 and shares held by certain members of such persons' families, over which such persons may be deemed to have sole or shared voting power or investment power. Percent of Class is calculated by dividing the Shares Beneficially Owned by the individual by the shares of Common Stock outstanding as of April 5, 2004 plus only those shares which the individual has the right to acquire within 60 days of April 5, 2004.

(2) Includes 100,000 shares subject to options presently exercisable at \$5.93 per share, 100,000 shares subject to options presently exercisable at \$4.86 per share, 100,000 shares subject to options presently exercisable at \$4.72 per share, and 100,000 shares subject to options presently exercisable at \$7.46 per share granted pursuant to Mr. Bertram's employment agreement. See - Employment Agreements.

(3) Includes 5,000 shares subject to options presently exercisable at \$6.21 per share, 5,000 shares subject to options presently exercisable at \$6.49 per share, 5,000 shares subject to options presently exercisable at \$5.78 per share, and 5,000 shares subject to options exercisable within 60 days at \$10.89 per share granted under the Non-Employee Director Stock Option Plan. Does not include shares reported to be beneficially owned by CU CapitalCorp. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Potential Changes in Control. Mr. Ferguson is a consultant to Citizens Communications Company, which is the parent company of CU CapitalCorp.

(4) Does not include shares reported to be beneficially owned by TDC A/S. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Potential Changes in Control. Messrs. Gelting and Holm are currently officers of TDC A/S. Mr. Gelting's shares consist of 1,284 shares subject to options presently exercisable at \$4.56 per share, 5,000 shares subject to options presently exercisable at \$5.78 per share, and 5,000 shares subject to options exercisable within 60 days at \$10.89 per share granted under the Non-Employee Director Stock Option Plan. Mr. Holm's shares consist of 5,000 shares subject to options presently exercisable at \$6.21 per share, 5,000 shares subject to options presently exercisable at \$6.49 per share, 5,000 shares subject to options presently exercisable at \$5.78 per share, and 5,000 shares subject to options exercisable within 60 days at \$10.89 per share granted under the Non-Employee Director Stock Option Plan.

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- (5) Includes 10,000 shares subject to options presently exercisable at \$9.44 per share, 5,000 shares subject to options presently exercisable at \$6.78 per share, 5,000 shares subject to options presently exercisable at \$6.00 per share, 5,000 shares subject to options presently exercisable at \$6.21 per share, 5,000 shares subject to options presently exercisable at \$6.49 per share, 5,000 shares subject to options presently exercisable at \$5.78 per share, and 5,000 shares subject to options exercisable within 60 days at \$10.89 per share granted under the Non-Employee Director Stock Option Plan.
- (6) Consists of 10,000 shares subject to options presently exercisable at \$9.44 per share, 5,000 shares subject to options presently exercisable at \$6.78 per share, 5,000 shares subject to options presently exercisable at \$6.00 per share, 5,000 shares subject to options presently exercisable at \$6.21 per share, 5,000 shares subject to options presently exercisable at \$6.49 per share, 5,000 shares subject to options presently exercisable at \$5.78 per share, and 5,000 shares subject to options exercisable within 60 days at \$10.89 per share granted under the Non-Employee Director Stock Option Plan.
- (7) Consists of 5,000 shares subject to options presently exercisable at \$6.21 per share, 5,000 shares subject to options presently exercisable at \$6.49 per share, 5,000 shares subject to options presently exercisable at \$5.78 per share, and 5,000 shares subject to options exercisable within 60 days at \$10.89 per share granted under the Non-Employee Director Stock Option Plan. Does not include shares reported to be beneficially owned by CU CapitalCorp. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Potential Changes in Control. Mr. Tow is currently an executive officer and director of Citizens Communications Company, which is the parent company of CU CapitalCorp.

Ole Bertram. Mr. Bertram was appointed as the Company's President and Chief Executive Officer effective January 1, 1999. Mr. Bertram is the Company's only Executive Officer. Prior to joining the Company, Mr. Bertram was the Senior Vice President of Tele Danmark International since 1997. Prior to that, Mr. Bertram was Technical Director of Tele Danmark International from 1995 to 1997, and Technical Director and Vice President of the Copenhagen Telephone Company from 1988 to 1995.

Daryl A. Ferguson. Mr. Ferguson has been associated with Citizens Communications Company (Citizens) since 1989 where he was President and Chief Operating Officer from 1990 to 1999. Citizens owns 18.7% of the Company's outstanding Common Stock. Mr. Ferguson retired as an executive officer of Citizens in 1999 and now serves as a consultant to Citizens. Pursuant to an agreement with Citizens, the Company is required, under certain conditions, to nominate for election to the Board one person designated by Citizens. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Potential Changes in Control.

Thomas Gelting. Mr. Gelting is currently a Vice President in the Corporate Business Development department of TDC A/S (formerly known as Tele Danmark A/S), a position he has held since 2001. TDC owns 31.4% of the Company's outstanding Common Stock. Mr. Gelting has been with TDC since 1993 which has included various positions within the Treasury Group. His prior position before joining the Corporate Business Development department was as Vice President, Treasurer. Prior to joining TDC, Mr. Gelting was with the Danish Government, which included positions with the Central Bank of Denmark and the Ministry of Finance. Pursuant to an agreement with TDC, the Company is required, under certain conditions, to nominate for election to the Board one person designated by TDC. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Potential Changes in Control.

Torben V. Holm. Mr. Holm is the head of TDC's Corporate Business Development department. TDC owns 31.4% of the Company's outstanding Common Stock. From 1994 to 2000 Mr. Holm was a Senior Vice President of Tele Danmark International (part of TDC). Mr. Holm is a member of the boards of several communications companies in which TDC holds investments. Pursuant to an agreement with TDC, the Company is required, under certain conditions, to nominate for election to the Board one person designated by TDC. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Potential Changes in Control.

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John B. Ryan. Mr. Ryan has been a financial consultant since 1988. From 1984 through 1987 he was a Senior Vice President and member of the Executive Committee of Josephthal & Co., Inc., a member of the New York Stock Exchange. From 1967 to 1984, he was a General Partner, Director of Compliance and a member of the Executive Committee of Herzfeld & Stern, a member of the New York Stock Exchange. He is a member of the Arbitration Panel of the New York Stock Exchange, the National Association of Securities Dealers and the American Arbitration Association.

William E. Starkey. Mr. Starkey is currently a consultant. He was with GTE Corporation from 1964 to 1993, when he retired as a Senior Executive. While at GTE, he held various posts involving operations, marketing and customer service, regulatory, human resources, information systems, management and planning. He was the Chairman of the Tampa Chamber of Commerce in 1990 and the Chairman of Enterprise Corporation from 1994 to 1996 (a private non-profit organization, with over 60 employees providing management, technical and financial assistance to small- and medium-sized companies).

Leonard Tow. Mr. Tow has been the Chairman and Chief Executive Officer of Citizens Communications Company since 1990, where he served as Chief Financial Officer from 1991 to 1997. Citizens owns 18.7% of the Company's outstanding Common Stock. He was Chief Executive Officer and a Director of Century Communications Corp., a cable television company, since its organization in 1973 to 1999, and Chairman of the Board from 1989 to 1999 and Chief Financial Officer from 1973 to 1996. He was Chairman of the Board of Electric Lightwave, Inc. from 1990 to 2002. He is a Director of the United States Telephone Association. Pursuant to an agreement with Citizens, the Company is required, under certain conditions, to nominate for election to the Board one person designated by Citizens. See Introduction Stock Ownership of Certain Beneficial Owners and Introduction Potential Changes in Control.

Committees and Meetings of the Board of Directors

The Board of Directors held nine meetings during the fiscal year ended December 31, 2003. Each of the directors attended every meeting of the Board of Directors that was held during the 2003 fiscal year and every meeting of each committee on which he served that was held during the 2003 fiscal year while he was serving as a member of such committee. While the Board of Directors does not have a formal policy requiring them to do so, the Board encourages the directors to attend the annual meeting of stockholders. All of the directors attended the 2003 annual meeting of stockholders.

The Company has standing Compensation-Stock Option, Audit and Executive Committees. The Board of Directors does not have a separately designated nominating committee. The Company does not have a nominating committee charter.

The full Board of Directors fulfills the role of a nominating committee. Each of the directors participates in the consideration of director nominees. It is the position of the Board of Directors that it is appropriate for the Company not to have a separate nominating committee because the size, composition and collective independence of the Board of Directors enables it to adequately fulfill the functions of a standing nominating committee. The Board of Directors is, however, in the process of studying the nominating process in light of the new disclosure requirements and expects to reach a conclusion on this issue soon. The American Stock Exchange does not require the Company to have a separate nominating committee but does require that board nominees be selected by either a nominating committee comprised solely of independent directors or by a majority of the independent directors. All of the directors, except for Mr. Bertram as a member of management, are considered independent within the meaning of the listing standards of the American Stock Exchange.

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The Board of Directors will consider nominees recommended by stockholders although, to date, it has not actively solicited such nominations. Such recommendations about nominees should be submitted in writing to the Secretary of the Company at the principal U.S. office of the Company not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual stockholders' meeting (provided, however, that in the event that the date of the annual stockholders' meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual stockholders' meeting and not later than the close of business on the later of the 90th day prior to such annual stockholders' meeting or the 10th day following the day on which public announcement of the date of such stockholders' meeting is first made by the Company). The written recommendation must include: (1) the name and address of the stockholder making the recommendation and the beneficial owner, if any, on whose behalf the nomination is made; (2) the number of shares of Common Stock which are owned of record and beneficially by such stockholder and such beneficial owner; (3) a representation that the stockholder is a holder of record of Common Stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such nomination; (4) a representation whether the stockholder or beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to stockholders owning at least the percentage of the Company's outstanding Common Stock required to elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such nomination; (5) all information regarding the director candidate that would be required to be included in a proxy statement filed under the proxy rules of the Securities and Exchange Commission; and (6) the written consent of the director candidate to being named in the proxy as a nominee and to serving as a director if elected. The Board of Directors may refuse to consider the recommendation of any person not made in compliance with this procedure. These procedures to be followed by stockholders in submitting recommendations for nominees were adopted by the Board of Directors in 2004, and have substantially revised the process for the submission by stockholders of recommendations for director candidates.

The composition of the Company's existing Board of Directors has remained stable for some time. The Board of Directors has not established a formal process for identifying and evaluating nominees for director. The Board of Directors has not established a set of specific, minimum qualifications for its director nominees. The Board of Directors will periodically review the appropriate skills and characteristics required of Board members in the context of the composition of the Board and an assessment of the needs of the Board. Some of the qualifications or skills that the Board would use to evaluate a candidate include: the ability of a prospective candidate to represent the interests of the Company's stockholders; the prospective candidate's standards of independence, integrity and commitment; the ability of the prospective candidate to dedicate the time, attention and energy to the duties required of a director; the extent to which the prospective candidate contributes to the range of talent, skill and expertise for the Board; and the willingness of a prospective candidate to evaluate management performance objectively. The Board of Directors will evaluate stockholder recommended nominees for director in the same manner as it evaluates director candidates recommended by other sources.

The Executive Committee consists of Ole Bertram, Daryl A. Ferguson and Torben V. Holm. The committee was formed on May 25, 2000. Its duties include providing strategic policy and operational oversight for the Company. The Executive Committee did not hold any meetings during the 2003 fiscal year.

The members of the Compensation Stock Option Committee (the Compensation Committee) are John B. Ryan, William E. Starkey (Chairman) and Leonard Tow. The function of the Compensation Committee is to administer the 2002 Incentive Stock Option Plan and the Non-Employee Director Stock Option Plan, and negotiate and determine the compensation of executive officers. The Compensation

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Committee held two meetings during the fiscal year ended December 31, 2003. See - Compensation Committee Report on Executive Compensation.

The members of the Audit Committee are Thomas Gelting, John B. Ryan (Chairman), and William E. Starkey. The Board has determined that Mr. Gelting is an audit committee financial expert, within the meaning of Securities and Exchange Commission regulations. All of the members of the Audit Committee are independent within the meaning of Securities and Exchange Commission regulations and the listing standards of the American Stock Exchange. The Audit Committee's duties include, among other duties, the appointment, retention, compensation and oversight of the independent auditors; reviewing the independence, experience, qualifications and performance of the independent auditors; the pre-approval of all audit and non-audit services to be performed by the independent auditors; reviewing and discussing with management and the independent auditors the audited financial statements and quarterly unaudited financial statements; reviewing the scope and results of the audits performed; reviewing the adequacy and operation of the Company's financial reporting and internal controls, as well as the disclosure controls and procedures; reviewing and approving related party transactions; monitoring compliance with the Company's Code of Ethics; and performing such other duties or functions with respect to the Company's accounting, financial and operating controls as deemed appropriate by it or the Board of Directors. During 2003, the Audit Committee adopted a revised written charter, which approval was ratified by the Company's Board of Directors. The Audit Committee Charter is attached hereto as Appendix A. During the fiscal year ended December 31, 2003 the Audit Committee held four meetings. See - Report of the Audit Committee.

Report of the Audit Committee

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

March 29, 2004

To the Board of Directors of Hungarian Telephone and Cable Corp.:

We have reviewed and discussed with management the Company's audited consolidated financial statements as of and for the fiscal year ended December 31, 2003.

We have discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with the auditors the auditors' independence.

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Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the audited consolidated financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

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Members of the Audit Committee

Thomas Gelting

John B. Ryan, Chairman

William E. Starkey

Compensation Committee Report on Executive Compensation

The following Report of the Compensation Committee and the performance graph included elsewhere in this proxy statement do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report or the performance graph by reference therein.

Executive Officer Compensation Policy

General. The Company's compensation policy is designed to motivate, reward and retain the managerial and technical talent needed to achieve the Company's business objectives. This policy provides for incentives to achieve short- and long-term objectives and rewards exceptional performance and accomplishments that contribute to the Company's business. Compensation arrangements for the Company's executive officers have been designed to align such compensation with the achievement of the Company's business objectives and growth strategy. The Company has traditionally sought to achieve such alignment through employment contracts providing for fixed-base salaries, cash bonuses and the grant of stock options. The Compensation Committee is in the process of reviewing its equity compensation structure. To that end, the Company has submitted to its stockholders for their approval an equity compensation plan that provides for more equity compensation alternatives (stock options, stock appreciation rights, restricted and unrestricted stock, restricted stock units, and performance units) than the existing stock option plans. Furthermore, the new equity compensation plan provides more flexibility in its terms than the existing stock option plans. In 2004, the Compensation Committee and three of its officers reached an agree